



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

SPECIAL

August 30, 1985

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer

Department of Defense (Werner Windus, 697-1305)
Department of Health and Human Services (Frances White, 245-7750)
Department of Justice (Jack Perkins, 633-2113)
Department of State (LeeAnne Berkenbile, 632-0430)
Department of Transportation (John Collins, 426-4694)
Department of the Treasury (Richard Carro, 566-8464)
Central Intelligence Agency
U.S. Postal Service (Fred Eggleston (245-4636)

SUBJECT: OPM testimony for September 9 on S. 1527, Supplemental Retirement System.

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than September 5, 1985.

Questions should be referred to Hilda Schreiber
(395-7362) -or-to-----{-----},
the legislative analyst in this office.

Naomi R. Sweeney
Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures

8/30/85

**STATEMENT OF
HONORABLE CONSTANCE HORNER
DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT**

before the

**COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE**

at a hearing on

**S. 1527, THE CIVIL SERVICE
PENSION REFORM ACT OF 1985**

SEPTEMBER 9, 1985

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

**THANK YOU FOR INVITING ME TO APPEAR TODAY TO DISCUSS S. 1527, THE CIVIL
SERVICE PENSION REFORM ACT OF 1985.**

**IN THE ADMINISTRATION'S VIEW, THE INTRODUCTION OF S. 1527 REPRESENTS THE
MOST IMPORTANT, AND MOST POSITIVE, STEP FORWARD TO DATE IN THE DISCUSSIONS
OF AN APPROPRIATE NEW RETIREMENT SYSTEM FOR THOSE FEDERAL EMPLOYEES WHO
ARE COVERED BY SOCIAL SECURITY. THOSE OF US WHO HAVE GOTTEN INTO THIS
ISSUE AT ALL ARE VERY MUCH AWARE OF HOW COMPLICATED IT IS, AND S. 1527
DOES A VERY IMPRESSIVE JOB OF ADDRESSING THE MYRIAD ISSUES AND CONCERNS
INVOLVED HERE.**

**THE CIVIL SERVICE PENSION SYSTEM THAT WOULD BE ESTABLISHED BY S. 1527
WOULD BE VERY SIMILAR TO THE BETTER PENSION PLANS IN THE PRIVATE SECTOR,
AND WOULD MEET THE ADMINISTRATION'S OBJECTIVE OF PROVIDING AN APPROPRIATE
LEVEL OF RETIREMENT BENEFITS FOR FEDERAL EMPLOYEES AT A REASONABLE COST.
THIS NEW SYSTEM WOULD BE CAREFULLY BALANCED TO MEET THE NEEDS OF
FULL-CAREER FEDERAL EMPLOYEES FOR A SECURE AND ADEQUATE RETIREMENT INCOME,**

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YET WOULD ALSO PROVIDE FAIR TREATMENT FOR EMPLOYEES WHO REMAIN WITH THE GOVERNMENT FOR ONLY A PORTION OF THEIR WORKING LIVES.

BUILDING ON SOCIAL SECURITY AS A FOUNDATION, S. 1527 WOULD PROVIDE A BASIC LEVEL OF BENEFITS THROUGH A DEFINED BENEFIT PLAN AND THEN, AS CALLED FOR IN THE PRESIDENT'S BUDGET, WOULD INCLUDE A DEFINED CONTRIBUTION PLAN. WE BELIEVE THAT A DEFINED CONTRIBUTION ELEMENT, GIVING EACH EMPLOYEE THE OPPORTUNITY TO MAKE PROVISION FOR HIS OR HER OWN RETIREMENT, IS ONE OF THE MOST ATTRACTIVE FEATURES OF THE NEW SYSTEM.

THE BILL HAS BEEN CAREFULLY CRAFTED TO ADDRESS THE SPECIAL PERSONNEL MANAGEMENT AND FISCAL MANAGEMENT NEEDS OF THE GOVERNMENT, YET BRINGS TO THE GOVERNMENT THE BEST PRACTICES OF THE PRIVATE SECTOR. A PARTICULARLY GOOD EXAMPLE OF THIS IS THE LONG-TERM DISABILITY PROVISION IN THE BILL, WHERE THE BENEFIT STRUCTURE AND THE CAREFUL MESHING OF THE DISABILITY BENEFIT WITH SOCIAL SECURITY AND WITH THE REST OF THE PENSION PLAN WILL ALLOW US TO PROVIDE SOUND AND ADEQUATE INCOME PROTECTION FOR OUR DISABLED WORKERS IN A MANNER MUCH MORE AKIN TO THE WAY OTHER EMPLOYERS HANDLE THIS SENSITIVE ISSUE.

OF COURSE, ONE OF OUR MAJOR CONCERNS HAS TO BE THE COST OF THE NEW SYSTEM. THE CONGRESSIONAL RESEARCH SERVICE, USING SOCIAL SECURITY II-B ACTUARIAL ASSUMPTIONS, HAS ESTIMATED THAT THE EMPLOYER SHARE OF THE NORMAL COST OF THE CIVIL SERVICE PENSION SYSTEM WOULD BE 20.8 PERCENT OF PAYROLL. WE HAVE OUR OWN BOARD OF ACTUARIES ADVISING US AT OPM, AND THEY BELIEVE THAT SOMEWHAT MORE CONSERVATIVE ASSUMPTIONS ARE LIKELY TO PROVE MORE ACCURATE OVER THE LONG TERM, BUT EVEN USING

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THE BOARD OF ACTUARIES ASSUMPTIONS, THE COST IS ESTIMATED TO BE ONLY A LITTLE HIGHER, 21.1 PERCENT OF PAYROLL. WHILE WE BELIEVE THE BOARD OF ACTUARIES ASSUMPTIONS ARE PROBABLY SOUNDER, THE COST BY EITHER MEASURE IS REASONABLY CLOSE TO THE PRESIDENT'S GOAL OF ABOUT 20 PERCENT OF PAYROLL, AND I HAVE NO OBJECTIONS TO USING THE CONGRESSIONAL RESEARCH SERVICE NUMBERS IN THESE DISCUSSIONS.

I WOULD NOW LIKE TO TURN TO A FEW RESERVATIONS WE DO HAVE ABOUT VARIOUS ASPECTS OF THE BILL, BUT BEFORE I DO SO, I WOULD LIKE TO EMPHASIZE THAT OUR SUGGESTIONS FOR CHANGES HERE SHOULD NOT BE TAKEN AS CALLING INTO QUESTION OUR STRONG SUPPORT FOR THE OVERALL APPROACH OF S. 1527.

AS IS INEVITABLE IN AN UNDERTAKING AS MASSIVE AND COMPLEX AS THIS, THERE ARE A GREAT MANY TECHNICAL DETAILS WHERE WE WOULD LIKE TO SEE MINOR CHANGES, AND I HOPE OUR STAFFS WILL BE ABLE TO WORK TOGETHER TO RESOLVE THESE MATTERS. I WOULD, HOWEVER, LIKE TO DISCUSS A FEW OF THE MORE SIGNIFICANT ISSUES.

ONE PROBLEM THAT WE HAVE TO FACE IN DESIGNING A GOVERNMENT RETIREMENT SYSTEM IS THE APPROPRIATE TREATMENT FOR CERTAIN SPECIAL CATEGORIES OF EMPLOYEES WHERE A YOUNG AND VIGOROUS WORK FORCE IS NEEDED, SUCH AS LAW ENFORCEMENT OFFICERS, FIREFIGHTERS, AND AIR TRAFFIC CONTROLLERS. S. 1527 HAS A NUMBER OF SPECIAL PROVISIONS DESIGNED TO PROVIDE FOR THESE EMPLOYEES. WE ARE PARTICULARLY PLEASED BY THE PROVISION THAT WILL CHARGE THE AGENCIES EMPLOYING THESE GROUPS FOR THEIR SPECIAL BENEFITS, RATHER THAN SPREADING THIS COST ACROSS THE WHOLE SYSTEM. HOWEVER, AS I HAVE DISCUSSED THE TREATMENT OF THESE GROUPS WITH MY COLLEAGUES IN

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THE AGENCIES EMPLOYING THESE WORKERS, IT HAS BECOME APPARENT THAT THE BILL AS IT STANDS DOES NOT ADEQUATELY PRESERVE CERTAIN ESSENTIAL FEATURES OF THE CURRENT RETIREMENT SYSTEM FOR THESE EMPLOYEES.

WE BELIEVE THE BILL MUST BE CHANGED TO PROVIDE A REASONABLE LEVEL OF BENEFITS THAT WILL ALLOW THESE WORKERS TO RETIRE AT ANY AGE WITH 25 YEARS OF SERVICE, OR AT AGE 50 WITH 20 YEARS OF SERVICE. THE MANDATORY RETIREMENT PROVISIONS OF CURRENT LAW ARE ALSO ESSENTIAL TO THE MANAGEMENT OF THESE SPECIALIZED GROUPS, AND NEED TO BE RETAINED.

FINALLY, THE COVERAGE DEFINITIONS HAVE CAUSED CONCERN AMONG THE EMPLOYING AGENCIES. WE RECOGNIZE THAT THESE DEFINITIONS WERE DRAWN FROM AN EARLIER DISCUSSION DRAFT PREPARED BY OPM, BUT WE BELIEVE THEY NEED TO BE REEXAMINED. UNDER S. 1527, A LAW ENFORCEMENT OFFICER OR FIREFIGHTER WHO MOVES INTO A MANAGEMENT OR ADMINISTRATIVE JOB WOULD LOSE SPECIAL RETIREMENT COVERAGE. IT IS ESSENTIAL TO THE OPERATION OF THESE SPECIALIZED ACTIVITIES THAT WE CONTINUE TO BE ABLE TO RECRUIT MANAGERS FROM AMONG THE LINE WORKERS. ACCORDINGLY, WE THINK THAT THESE DEFINITIONS NEED TO BE CHANGED TO PERMIT MOVEMENT INTO THE MANAGERIAL RANKS, ALTHOUGH IT MIGHT BE POSSIBLE TO REQUIRE SOME MINIMUM PERIOD OF WORK IN THE BASIC COVERED POSITIONS.

ANOTHER PROVISION THAT CAUSES SOME CONCERN IS THE REQUIREMENT IN THE BILL THAT THE DEPARTMENT OF DEFENSE MILITARY RETIREMENT FUND BE LIABLE FOR THE COST OF CREDITING MILITARY SERVICE UNDER THE CIVIL SERVICE PENSION SYSTEM. WE DO NOT THINK THIS IS AN APPROPRIATE SOURCE FOR THIS MONEY, SINCE WHAT IS INVOLVED HERE IS NOT REALLY ANY SORT OF TRANSFER OF LIABILITY FROM ONE RETIREMENT SYSTEM TO ANOTHER, BUT INSTEAD MERELY THE CREDITING UNDER

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OUR CIVILIAN SYSTEM OF MILITARY SERVICE OF PEOPLE WHO, FOR THE MOST PART, NEVER WOULD HAVE RECEIVED ANY PENSION FROM THE MILITARY SYSTEM ANYWAY. FURTHERMORE, IT WOULD BE VERY DIFFICULT TO DETERMINE THE SIZE OF THE LUMP-SUM NORMAL COST PAYMENTS THAT WOULD BE REQUIRED AT THE BEGINNING OF A VETERAN'S CIVILIAN CAREER. WE THINK IT WOULD BE MUCH PREFERABLE TO CONTINUE THE CURRENT SYSTEM OF TREASURY TRANSFER PAYMENTS TO FUND THE COST OF CREDITING MILITARY SERVICE AS THE BENEFITS ARE PAID.

WE HAVE STRONG RESERVATIONS ABOUT THE PROVISION IN THE BILL PERMITTING THE CREDITING OF UNUSED SICK LEAVE AS SERVICE UNDER THE BASIC PLAN. BOTH THE PRESIDENT'S BUDGET AND THE GRACE COMMISSION HAVE CALLED FOR ELIMINATING THIS ANOMALOUS AND ILLOGICAL BENEFIT FROM THE CURRENT RETIREMENT SYSTEM, AND WE WOULD HOPE THAT WE CAN AVOID SETTING THE NEW SYSTEM OFF ON THE WRONG FOOT IN THIS REGARD. THIS IS PARTICULARLY TRUE SINCE THIS RELATIVELY MINOR BENEFIT IS QUITE COSTLY, AND WE BELIEVE THIS MONEY COULD BE USED MUCH BETTER TO CLOSE SOME NARROW AND TECHNICAL, BUT SERIOUS, GAPS IN THE BILL'S DISABILITY AND SURVIVOR PROTECTIONS.

S. 1527'S PROVISIONS PERMITTING THE TRANSFER OF EMPLOYEES FROM THE CURRENT RETIREMENT SYSTEM TO SOCIAL SECURITY AND THE NEW CIVIL SERVICE PENSION SYSTEM APPEAR, ON THE WHOLE, TO BE REASONABLE AND WORKABLE, BUT WE ARE CONCERNED BY ONE ASPECT OF THESE PROVISIONS, NAMELY THE COMPLETE WAIVER OF THE SOCIAL SECURITY WINDFALL OFFSET PROVISIONS FOR EMPLOYEES WHO TRANSFER. THE WINDFALL OFFSET PROVISIONS OF THE SOCIAL SECURITY ACT WERE DESIGNED TO REDUCE SOCIAL SECURITY BENEFITS THAT WOULD OTHERWISE BE PAYABLE TO THOSE WHO SPENT A SUBSTANTIAL PORTION OF THEIR WORKING

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CAREERS IN EMPLOYMENT THAT WAS SHELTERED FROM SOCIAL SECURITY TAXATION, AS FEDERAL EMPLOYMENT HAS BEEN. BY COMPLETELY WAIVING THE OFFSET FOR EMPLOYEES WHO TRANSFER, MANY LONG-SERVICE FEDERAL EMPLOYEES WHO ALSO QUALIFY FOR SOCIAL SECURITY BENEFITS ON THE BASIS OF MINIMAL SOCIAL SECURITY-COVERED EMPLOYMENT COULD EXPERIENCE A SUBSTANTIAL WINDFALL, RECEIVING MUCH GREATER TOTAL BENEFITS AS A RESULT OF TRANSFERRING TO THE NEW SYSTEM THAN THEY COULD RECEIVE IF THEY STAYED UNDER THE CURRENT SYSTEM. WE BELIEVE THE WINDFALL OFFSET MUST BE RETAINED, AT LEAST TO SOME DEGREE, FOR THESE PEOPLE.

FINALLY, I WOULD LIKE TO TURN BRIEFLY TO ONE OF S. 1527'S MOST INTERESTING FEATURES, ITS THRIFT SAVINGS PLAN. THIS PLAN IS VERY SIMILAR TO, THOUGH NOT QUITE IDENTICAL WITH, A 401(K) PLAN. AS YOU KNOW, THE PRESIDENT'S TAX REFORM PROPOSALS CALL FOR LIMITING 401(K) PLANS TO PROFIT-ORIENTED EMPLOYERS. WHILE WE MUST, THEREFORE, OBJECT TO INCLUDING THIS 401(K) PLAN IN S. 1527, WE REMAIN VERY MUCH COMMITTED TO THE OBJECTIVE THE THRIFT SAVINGS PLAN WAS TRYING TO MEET, NAMELY TO ENCOURAGE AND ASSIST EMPLOYEES TO SAVE FOR THEIR OWN RETIREMENT, IN ORDER TO SUPPLEMENT THEIR SOCIAL SECURITY AND BASIC PLAN BENEFITS. WE ARE EXAMINING OTHER PROVISIONS IN THE TAX LAWS, SUCH AS THE SECTION 457 PLANS FOR STATE GOVERNMENT EMPLOYEES, AND WE HOPE TO BE ABLE TO PROPOSE TO THE COMMITTEE SHORTLY AN ALTERNATIVE APPROACH THAT WILL BOTH SATISFY THE IMPORTANT OBJECTIVES OF S. 1527'S THRIFT SAVINGS PLAN AND BE CONSISTENT WITH THE PRESIDENT'S TAX REFORM PROPOSALS.

THANK YOU AGAIN FOR THE OPPORTUNITY TO PRESENT THESE VIEWS. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.